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 1B. B) TEGUCIGALPA 600 AND PREVIOUS
 1C. C) TEGUCIGALPA 579
 1D. D) TEGUCIGALPA 574

11. (U) Summary: This is another in a series of daily round-ups of political news in the aftermath of the June 28 forcible removal and exile of President Manuel Zelaya from Honduras. End Summary.

Delegations announced for Saturday negotiations

12. (U) Local media announced the resumption of the San Jose talks to begin at 10 am Saturday, July 18, at the residence of Costa Rican President Oscar Arias. According to local press, the commissions representing Micheletti and Zelaya during the San Jose talks will be as follows:

-- For Micheletti:

-- Carlos Lopez, former Foreign Minister;
-- Arturo Corrales, former President of the Christian Democratic Party;
-- Mauricio Villeda, running mate of Elvin Santos; and
-- Vilma Morales, former Chief Justice of the Supreme Court and member of the National Party.

-- For Zelaya:

-- Aristides Mejia, Defense Minister during most of Zelaya's term, then Administrative VP;
-- Milton Jimenez, former Foreign Minister, Presidential Legal Advisor and Banking Commissioner; and
-- Enrique Flores Lanza, Minister of the Presidency.

13. (SBU) Media did not report whether Zelaya would add a fourth member to his delegation. Brief bios of many of these negotiators appear in refs C and D. All three of Zelaya's representatives are from his leftist inner circle known as the "Patricios." The Attorney General has issued an arrest warrant for Flores Lanza for allegedly misappropriating 40 million lempiras (USD 2.1 million) of GOH funds to promote Zelaya's "fourth urn" constitutional referendum.

Micheletti Offers to Step Down if Zelaya Goes to Jail

14. (U) Micheletti said to the press July 15 that he was willing to step down as President in order to maintain

peace in Honduras. However, he would only allow Zelaya to return if he were arrested and tried for crimes he allegedly committed while in office. Micheletti expressed concern about increasingly frequent calls by Zelaya supporters for armed insurrection. He cited unofficial sources reporting armed groups forming along the Nicaragua-Honduras border to prepare for the land infiltration of Zelaya. However, he said, he hopes Saturday's meeting in Costa Rica will yield progress.

Zelaya Continues to Posture

¶5. (SBU) Zelaya's supporters announced July 15 and repeated July 16 that they had a plan to "paralyze the country" and called for insurrection. Repeated calls by Zelaya to proceed "by other means" and by his supporters for insurrection have created a cottage industry of rumors of violent demonstrations and attacks on hospitals, airports and other public infrastructure. The growing climate of insecurity led the Micheletti regime July 15 to re-impose a curfew that had been lifted only Sunday morning (July 12).

"Plan Caracas"

¶6. (SBU) A detailed conspiracy dubbed "Plan Caracas" was outlined by conservative daily "El Heraldo" July 16. Under this plan, Hugo Chavez would destabilize and discredit the de facto Micheletti regime and reinstate Zelaya by force. The details were gleaned from supposedly reliable but anonymous sources. Foreign and criminal elements would combine with Zelaya supporters to take Tocontín Airport, block major highways and incite a massacre during confrontations with police and military units guarding public buildings.

¶7. (SBU) The destabilization effort would purportedly begin with a protest at a public building guarded by military units. Gang members paid 300-500 lempiras (USD 15-25) would be placed at the front of the crowd and would violently engage the military in an effort to provoke return fire. Once fired upon, "irregular groups" infiltrated into the crowd would open fire and ensure a massacre. The massacre would be blamed on military forces controlled by the de facto regime and used to provoke anarchy in the country.

¶8. (SBU) Zelaya would then be smuggled into the country via its southern border with Nicaragua. Local drug traffickers who control the border region, together with "armed cells" recently infiltrated into Honduras, would provide security. While "Plan Caracas" sounds fantastical and has not been confirmed by other embassy sources, it illustrates the kinds of rumors circulating in the country and reflects the deep fear many Hondurans have that Zelaya will use any means to retake the Presidency and that his return would mean greater alignment with Venezuelan.

Budget Calls for Sharp Spending Cuts

¶9. (U) De facto regime Finance Minister Gabriela Nunez presented the long-delayed 2009 budget to Congress July 15. It calls for total expenditure of 112 billion lempiras (USD 5.93 billion). The budget would require state institutions to reduce expenditures across the board by 20 percent.

¶10. (U) Representatives from international financial institutions, including Interamerican Development Bank, the World Bank, and the Central American Bank for Economic Integration, confirmed a freeze on funding for Honduras pending the resolution of the current political crisis. A spokesperson from the European Commission announced that

while direct budget support to the GOH had been suspended,
development and social assistance would continue.
LLORENS